

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

The government-wide Statement of Activities includes an increase in beginning net assets for \$202.9 million due to the State's implementation of Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues. In November 1998, 46 states, including Michigan, settled with the major tobacco companies in a settlement agreement that precludes the states from attempting future litigation in exchange for monetary awards that will continue in perpetuity. Prior to GASB Technical Bulletin No. 2004-1, the State was accounting for the tobacco settlement payments as revenue when received. With implementation of the bulletin, the State is now required to recognize revenue and a receivable for the portion of the next payment to be received but already earned as of September 30 based on the fiscal year's pro-rated share of cigarette sales. The restatement to beginning net assets represents the amount of revenue that would have been recognized in prior years using the new revenue recognition requirements of the technical bulletin.

The Attorney Discipline System, an enterprise fund, shows an increase of \$1.0 million to beginning net assets. This fund is being presented in the State's financial statements for the first time this fiscal year. The increase in beginning net assets reflects the net assets of the fund that would have been disclosed in prior years had the Attorney Discipline System been reported in the State's financial statements in prior years.

The Michigan State Housing Development Authority, a discretely presented component unit, increased its beginning net assets by \$13.5 million to reflect a change in accounting for grants from previously issued financial statements. Previously, this component unit recorded grant commitments based on the commitment date and not when the grants were earned by the grantee. Generally accepted accounting principles require commitments to be recognized as expenses when earned.

Seven of the ten state universities reported as discretely presented component units increased beginning net assets by a combined total of \$311.1 million due to the implementation of GASB Statement No. 39. This new accounting standard requires each university to include in their financial statements the activities of foundations that raise significant economic resources for the direct benefit of the university. The increase in beginning net assets for the universities represents the net assets held by the foundations at the beginning of the fiscal year and not previously reported in the universities' financial statements.

During fiscal year 2004, the State implemented an accounting change for its estimate of State Education Tax (SET) receivable at September 30 to include SET collected by local governments but not yet remitted to the State. This change in estimate resulted in increased current year revenue of \$78.4 million in the School Aid Fund, a special revenue fund.